

VZCZCXRO9436  
PP RUEHCHI RUEHDT RUEHFK RUEHHM RUEHKS RUEHNAG RUEHNH RUEHPB  
DE RUEHHI #0475/01 1150823  
ZNR UUUUU ZZH  
P 240823Z APR 08 ZDK  
FM AMEMBASSY HANOI  
TO RUEHC/SECSTATE WASHDC PRIORITY 7690  
INFO RUEHHM/AMCONSUL HO CHI MINH 4636  
RUCNASE/ASEAN MEMBER COLLECTIVE  
RUEHZU/ASIAN PACIFIC ECONOMIC COOPERATION  
RUEATRS/DEPT OF TREASURY WASHINGTON DC  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC

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E.O. 12958: N/A

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SUBJECT: VIETNAM ECON HIGHLIGHTS: GVN SETS SIGHTS ON LOWER TARGETS,  
U.S. LOSES TOP INVESTMENT SPOT, SOES TOLD TO SPECIALIZE

REF: Hanoi 457 (Vietnam Investment Undeterred)

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11. (U) This cable is part of an ongoing series on developing  
economic stories in Vietnam.

GVN ABANDONS GROWTH AND INFLATION TARGETS  
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12. (U) Lower-than-expected growth and higher-than-expected inflation  
and trade deficit figures are forcing the GVN to revise its  
optimistic 2008 forecasts. On April 22, the National Assembly  
agreed to a GVN proposal to reduce the growth target to 7 percent,  
from the old 8.5-9 percent target. (Note: The GVN legislates its  
economic targets every year.) Planning and Investment Minister Vo  
Hong Phuc said that the GVN also intended to set the inflation  
target under 12.6 percent (the 2007 level), a move that would  
recognize that the GVN has abandoned its longstanding target of  
keeping inflation under GDP growth. The legislature said, however,  
that it was keeping the poverty reduction target at 11-12 percent  
from 14.75 percent. GDP in the first quarter of 2008 grew at an  
estimated 7.4 percent, while inflation rose to 9.19 percent. Over  
the same period, the trade deficit hit \$11.1 billion, sparking  
concerns that it will exceed \$20 billion this year.

U.S. RELINQUISHES TOP INVESTOR SPOT TO CARIBBEAN TAX HAVEN  
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13. Our reign as Vietnam's top investor in 2008 lasted all of three  
months (Reftel). By April 24, the British Virgin Islands (BVI) had  
\$2.1 billion in approved investments in 11 projects, relegating the  
United States to second place tie with Malaysia, with both at \$1.3  
billion in approved investment. The latest investment numbers also  
show that Vietnam has approved \$7.2 billion in investment so far  
this year, a 53 percent jump from the same period last year,  
according to the Ministry of Planning and Investment. Foreign  
investors made commitments equal to \$21.3 billion in 2007, an  
increase of 78 percent from \$12 billion in 2006.

AUTO IMPORT TARIFFS GO UP AGAIN  
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14. (U) On April 21, the GVN again raised import tariffs on vehicles,  
all-but-undoing tariff reductions introduced in 2007. The new 83  
percent tariff rates, up from the last hike to 70 percent announced  
in March, should benefit locally-made vehicles, a field that  
includes Ford and GM. Sales of local models were up 300 percent in  
the first quarter of 2008, according to press reports. Industry  
executives told Embassy Hanoi that the tariff decision was a "mixed  
bag," because it helped with their local production but at the

expense of their ability to import finished models, whose sales have also exploded. According to local reports, car imports in the first quarter of 2008 totaled \$293 million compared with \$523 million in all of 2007. Concerns about the trade deficit, the inability of the infrastructure to absorb more vehicles, and the optics of roads clogged with ostentatious luxury cars are all said to be driving a part in the decision-making process.

#### PM TELLS SOES TO FOCUS ON CORE BUSINESSES

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15. (U) Prime Minister Nguyen Tan Dung has told Vietnam's state-owned enterprises (SOEs) to shed speculative business activities and concentrate on their core mandates. In an April 1 meeting, PM Dung chastised top executives of large SOEs for chasing speculative projects that overheated the real estate market and misused available investment capital. The new policy is a reversal of several 2007 directives that encouraged SOEs to diversify in order to prepare for competition with foreign businesses. Vietnam's SOEs are believed to have from 30-40 percent of their capital in non-core activities, with the likes of PetroVietnam heavily involved in hotel management, real estate and banking, and shipping company Vinashin in breweries.

#### PROVINCES MOVING AHEAD WITH E-GOVERNMENT

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16. (U) Microsoft signed an agreement with northern Lao Cai province on April 9 to help it set up an e-government system. Microsoft will supply the province with advanced e-government solutions and support to transform its current website (<http://laocai.gov.vn>) to provide improved channels for those wanting to access public information and services, including foreign investors. E-government factors high on the GVN's agenda for administrative reform, and Lao Cai is already one of the highest ranking provinces in the Vietnam Competitiveness

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Initiative's Provincial Competitiveness Index (PCI), in part based on the accessibility and user-friendliness of its website.

#### VIETNAM WORKS TO DEVELOP TONS OF STEEL

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17. (U) Work has begun on what will be Vietnam's largest steel factory. The Nghi Son Steel Cast Iron Factory will have an annual capacity of 2.25 million tons of steel with a domestic capital investment of \$500 million. Work on the first stage of the factory, located in northern Thanh Hoa province, is expected to be completed by the end of 2009, producing 750,000 tons of steel per year. The company will begin work on the factory's second stage in early 2010. Nghi Son is also where Vietnam will soon start building the country's second oil refinery.

#### SHIPBUILDING INDUSTRY DOUBLES PROFITS

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18. (U) The Vietnam Shipbuilding Industry Group (Vinashin) announced 2008 first quarter revenues of \$318 million, a year-on-year increase of 108 percent. In the first three months of the year, Vinashin built 50 large vessels ranging from 4,000-105,000 DWT as well as dozens of smaller vessels for private use and maritime transport. Vinashin is now one of Vietnam's largest employers, with a workforce of 78,500 (including 7,000 added thus far in 2008), and the world's fifth largest shipbuilder, according to Fairplay, a UK-based international shipping magazine.

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